



SUPPORTING FAMILIES, STRENGTHENING MARRIAGE

A plan for a meaningful transferable tax allowance for married couples

Summary

This short report renews the CSJ's call for the Government to introduce a transferable tax allowance (TTA) for married couples and asks for that allowance to be set at a meaningful level – initially £2,000 per couple per year (amounting to a possible annual saving of £400 per couple).

Marriage and Family Instability

Stable families are the bedrock of society. However, family breakdown in the UK has reached catastrophic levels. Some 45 per cent of children will see the breakdown of their parents' relationship.¹ Furthermore, about a million children in the UK are growing up without meaningful contact with their fathers.²

This matters because children who grow up in an unstable family are far more likely to live in poverty and experience social breakdown. A child not growing up in a two-parent family is more likely to:

- Grow up in poorer housing;
- Experience behavioural problems;
- Perform less well in school and gain fewer educational qualifications;
- Need more medical treatment;
- Leave school and home when young;
- Become sexually active, pregnant or a parent at an early age; and

¹ DWP, *Social Justice Outcomes Framework*, London: The Stationery Office, 2012

² Fortin J, Hunt J and Scanlan L, *Taking a longer view of contact: The perspectives of young adults who experienced parental separation in their youth*, Brighton: University of Sussex Law School, 2012
DWP, *Social Justice: transforming lives – One year on*, London: The Stationery Office, May 2013

- Report more depressive symptoms and higher levels of smoking, drinking and other drug use during adolescence and adulthood.³

The CSJ does not promote marriage for moral reasons and or make judgments about people and their circumstances. Rather, we are persuaded by the overwhelming evidence that marriage strongly helps combat instability and social breakdown. This is why we support this vital institution.

Marriage is by far and away the most stable form of relationship. According to a 2001 study, 97 per cent of all couples still together by the time their child was 15 were married.⁴ A 2010 report found that 88 per cent of married parents were still married and living together by the time their child was five, compared to only 67 per cent of cohabiting couples (23 per cent of whom were now married).⁵ Children born to cohabiting parents were almost three times as likely as those born to married parents to see their parents split by the time they were five (28 per cent compared to 10 per cent).⁶ For these reasons the CSJ has long advocated strengthening marriage.

Marriage remains popular amongst all parts of society and amongst people of all different experiences. There is also overwhelming public support for the institution of marriage and for two-parent households, even amongst lone parents. In polling conducted for the CSJ by YouGov:⁷

- 60 per cent of those polled believe that marriage had become less important in society and that this was a bad thing;
- 95 per cent thought fathers were important to a child's wellbeing, 71 per cent of those polled thought they were very important;

³ Mooney A, Oliver C and Smith M, *Impact of Family Breakdown on Children's Well-Being: Evidence Review*, London: Department for Children, Schools and Families, June 2009, p7 [accessed via: <https://www.education.gov.uk/publications/eOrderingDownload/DCSF-RR113.pdf> (24/01/13)]

⁴ Benson H, *The myth of 'long-term stable relationships' outside marriage*, The Marriage Foundation, May 2013

⁵ Kiernan K and Holmes J, 'Fragile Families in the UK: evidence from the Millenium Cohort Study', Draft report, June 2010 [accessed via: <http://www.york.ac.uk/media/spsw/documents/research-and-publications/HolmesKiernan2010FragileFamiliesInTheUKMillenniumCohort.pdf> (02/04/13)]

⁶ Ibid

⁷ CSJ, YouGov poll September 2012

- 81 per cent thought it was important for a child to grow up living with both parents – of those who were separated it was 85 per cent, for those who were divorced, 68 per cent;
- Nearly two thirds of young people aged 18-24 (63 per cent) said they would like to get married.

People in the UK still back marriage and family stability – it is time their politicians did the same.

Recognising marriage in the tax system

The CSJ strongly supports the introduction of a transferable tax allowance for married couples. We proposed this in 2007 on the grounds that, while it would provide only a modest increase in income, this increase could make a substantial difference amongst some of the poorest families.^{8,9} It would also send a clear signal to the whole of society and particularly to people in disadvantaged areas where barriers to marriage are highest that the Government is supporting their aspiration to marry.

When the Government first announced plans to increase the Personal Tax Allowance to £10,000, the CSJ pointed out that a Transferrable Tax Allowance offered larger gains to the poor than this proposal.

Recent analysis by CARE and the IFS confirmed this to be the case¹⁰. However, even with an increased Personal Tax Allowance, a TTA would have a beneficial impact for the poorest families, and reflect the strength of people's aspiration to marry across the socioeconomic spectrum. These aspirations are currently being thwarted, and it is important to address perverse incentives which make couple formation and marriage less possible for people on low incomes.

First, as we set out in *Breakthrough Britain 1*¹¹, the ability of a tax allowance to act as a support for marriage has been challenged on the grounds that family breakdown rose during the period over which a Married Couples Allowance (MCA) was available to all married couples. However, using the MCA as a reference point for a positive tax treatment is flawed as it did not, in reality, provide much financial support for marriage *per se* since the same amount of money was also available under another name, as the Additional Personal Allowance, for lone parents or cohabiting couples with dependent children. Therefore the MCA itself was only a genuine financial bonus to married couples *without* dependent children and potentially greatly limited in its effect.

Importantly, this is not an extension of universal benefits at a time when these are increasingly being seen as unaffordable and unjustifiable for high earners but

⁸ Centre for Social Justice, *Breakthrough Britain: Family Breakdown*, London: Centre for Social Justice, 2007

⁹ Centre for Social Justice, *Why is the Government anti-Marriage? Family policy derived from strong evidence would lead to policies which supported marriage*, London: Centre for Social Justice, December 2009

¹⁰ CARE, *The Case for Transferable Allowances for Married Couples*, 4 March 2013

¹¹ CSJ, *Breakthrough Britain 1*, 2007

crucially an opportunity for married couple to improve their tax arrangements as a unit. Currently adults who are married, but who do no paid work as they fulfil caring responsibilities, volunteer or otherwise serve their communities, are not entitled to a personal tax allowance. Given the contribution that many are making to the functioning of their own family, local community and therefore to wider society, it is inequitable that this caring and community work is not acknowledged in the tax system.

Third, the tax and benefit system is incoherent and different parts of it operate according to radically different principles. For income tax purposes, the unit of taxation is the individual and, apart from the minor exception of married couples born before 1935, there is no tax allowance for family dependants such as children, non-working spouses or elderly relatives. In contrast, the unit of account in the welfare system is the family. In the vast majority of European countries, (including Norway and Denmark) the tax system recognises the interdependence of husband and wife (although it is not compulsory and individual taxation is available as an option for those who prefer it).

Recognising the importance of marriage, the Conservative Party's 2010 manifesto stated:¹²

We will recognise marriage and civil partnerships in the tax system in the next Parliament. This will send an important signal that we value couples and the commitment that people make when they get married.

Subsequently, the Coalition Agreement made provision for the Conservative Party to introduce a TTA on which Liberal Democrat MPs would be able to abstain.¹³

In November 2012, YouGov asked 1722 people:

"Before the election David Cameron said he would 'recognise marriage in the tax system'. So far the government have not introduced any measures to recognize marriage in the tax system, how does this make you feel?"

35 per cent said that it made them 'think less positively about David Cameron' (against 4 per

¹² Conservative Party, *Invitation to Join the Government of Britain: the Conservative Manifesto 2010*, London: Conservative Party, 2010

¹³ Coalition Agreement, *Our Programme for Government*, May 2010 p 30

cent who said that it made them 'think more positively about David Cameron')

In July this year the Prime Minister confirmed that plans for marriage tax breaks would be published soon.¹⁴

Under the proposals outlined by the Conservatives before the election, spouses not using all of their tax-free personal allowance, either because they stay at home or work part-time and earn less than the threshold for basic rate income tax, would be able to transfer just £750 of their unused tax allowance to their working partner.¹⁵

This would mean that eligible couples where one partner is not using all the tax-free personal allowance would be up to £150 a year better off – just £2.88 a week. Whilst this of course is better than nothing, we propose a more targeted but more generous TTA as a first step, that allows someone to transfer up to 20 per cent of their unused personal tax allowance to their spouse.

	Annual amount available to be transferred	Maximum Annual Saving
Conservative Party Manifesto proposal	£750	£150
Centre for Social Justice proposal(s)	£2, 000 (20% of £10,000 Personal Tax Allowance)	£400

Below is a range of different costing options for the introduction of a TTA in recognition of the current budget pressures, which would focus support on married couples with young children. Costing options for a transferable tax for marriage, all of which assume the 2014–15 basic tax rate/tax threshold of 20 per cent/£10,000:¹⁶

¹⁴ <http://www.bbc.co.uk/news/uk-politics-23120462>

¹⁵

http://www.conservatives.com/News/News_stories/2010/04/Recognising_marriage_in_the_tax_system.aspx

¹⁶ Author's calculation based HMRC Tax Data and IFS calculations

<u>Proposal</u>	<u>Cost</u>	<u>No of Families who gain</u>
Married couples with children under three years old, the most important years for a child's development	£480m	1,200,000
Married couples with children under six years old	£840m	2,100,000
Married couples with dependent children	£1,84bn	4,600,000
All married couples	£4,87bn	12,175,000

Recognising marriage under Universal Credit

These reforms, in their current guise would offer only a limited benefit to people who are in work but on low incomes. This is because when Universal Credit is introduced, much of the benefit of a transferrable tax allowance would be lost through the current taper rate (currently set at 65 per cent) which withdraws financial support as people earn more. If the current rules of Universal Credit were applied to this measure, much of the gain would be taken away through the taper. However, it is extremely important that the importance of marriage is also recognised for couples who earn less.

To ensure married couples on low incomes receive a comparable benefit to married couples who are not in receipt of Universal Credit, we propose that the Government should establish two new claimant groups under Universal Credit, one for just married couples and the other for married couples with children.

The rules for Universal Credit would apply to these two new claimant groups in exactly the same way as the current system with one key exception. The new claimant groups would benefit from a higher earnings disregard to reflect the fact that they are married. Consequently, married couple households, under Universal Credit, would receive an increase in the amount of money they can earn before taxes apply and benefits begin to be taken away. This would make the Earnings Disregard operate in

a similar fashion to the way that the enhanced Personal Tax Allowance would be utilised by married couples outside of the Universal Credit system. A premium could also be included within the system to recognise marriage amongst those couples who are unable to work.

Conclusion

Because marriage offers unparalleled stability for families and children, it is right that it is recognised in the tax system. It is also essential that this recognition is meaningful. Setting the TTA too low risks nullifying its potential to offer noticeable support to low-income couples who marry and could undermine the whole policy.

It is also important to note that a TTA is only one of a number of measures that government should make in order to strengthen families. A huge deal more needs to be done to encourage both couple formation and family stability. As we have argued elsewhere in other reports¹⁷, there is an urgent need to eliminate remaining couple penalties in the benefit system and to place family policy in government on a firm basis by establishing a Department for the Family. Next year, as part of our work for *Breakthrough Britain II*, we will publish recommendations to political parties outlining how the continued rise in family breakdown can be halted and reversed.

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¹⁷ CSJ, *Fractured Families*, 2013